Village of Lexington Building Authority

Lexington, Michigan

Annual Financial Statements

and

Auditors' Report

June 30, 2008

YEO & YEO

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Village of Lexington Building Authority
Lexington, Michigan
Members of Building Authority Board
June 30, 2008

BUILDING AUTHORITY BOARD

VIRGINIA McNABB	SECRETARY
KIRK SHOULTS	TREASURER

YEO & YEO
CPAs & Business Consultants

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Independent Auditors' Report

Members of Village of Lexington Building Authority
Lexington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Village of Lexington Building Authority as of and for the year ended June 30, 2008, which collectively comprise the Village of Lexington Building Authority basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lexington Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Lexington Building Authority at June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Building Authority has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lexington Building Authority's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Marlette, Michigan
October 2, 2008

BASIC FINANCIAL STATEMENTS

Village of Lexington Building Authority
Statement of Net Assets and Governmental Funds Balance Sheet
June 30, 2008

	General Fund	Debt Service Fund	Total	(Note 7) Adjustments	Statement of Net Assets
Assets					
Cash	$ 83,283	$ -	$ 83,283	$ -	$ 83,283
Net investment in direct financing lease					
Expected to be received within one year	8,000	-	8,000	-	8,000
Expected to be received after one year	139,000	-	139,000	-	139,000
Total assets	$ 230,283	$ -	$ 230,283	$ -	$ 230,283
Liabilities and Fund Balance					
Liabilities					
Checks written against future deposits	$ -	$ 201	$ 201	$ -	$ 201
General obligation bonds payable					
Due within one year	-	-	-	8,000	8,000
Due after one year	-	-	-	139,000	139,000
Total liabilities	-	201	201	147,000	147,201
Fund balances/Net assets					
Reserved for financing lease	147,000	-	147,000	(147,000)	-
Designated for maintenance of building	38,585	-	38,585	(38,585)	-
Designated for debt retirement	38,586	-	38,586	(38,586)	-
Unreserved	6,112	(201)	5,911	(5,911)	-
Total fund balances (deficits)	230,283	(201)	230,082	(230,082)	-
Total liabilities and fund balances	$ 230,283	$ -	$ 230,283	(83,082)	147,201
Net assets					
Unrestricted				$ 83,082	$ 83,082

See accompanying notes to financial statements

Village of Lexington Building Authority
Statement of Activities and Governmental Fund
Revenues, Expenditures and Changes in Fund Balance
June 30, 2008

	General	Debt Service Fund	Total	(Note 8) Adjustments	Statement of Activities
Revenues					
Interest earned - investments	$ 301	$ -	$ 301	$ -	$ 301
Reimbursements	29,636	16,399	46,035	-	46,035
Total revenues	29,937	16,399	46,336	-	46,336
Expenditures/expenses					
Operating expenses	30,622	-	30,622	-	30,622
Debt service					
Principal retirement	-	9,000	9,000	(9,000)	-
interest	-	7,800	7,800	-	7,800
Total expenditures	30,622	16,800	47,422	(9,000)	38,422
Excess (deficiency) of revenues over expenditures	(685)	(401)	(1,086)	9,000	7,914
Fund balances (deficits)/net assets - beginning of the year	230,968	200	231,168	(156,000)	75,168
Fund balances (deficits)/net assets - end of the year	$ 230,283	$ (201)	$ 230,082	$ (147,000)	$ 83,082

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Lexington Building Authority was created during 1979 to facilitate the financing, construction and operation of a municipal building in the Village for the use of both the Village and Township of Lexington.

The accounting policies of the Village of Lexington Building Authority conform to accounting principles to generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Building Authority is the primary government, which has oversight responsibility and control over all activities. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Building Authority and does not include any other component within its basic financial statements.

Government-Wide Statements

The statement of net assets and the statement of activities display information about the Building Authority. These statements include the financial activities of the overall government. All of the Building Authority's activities are classified as governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues, reimbursements from the Village of Lexington to and Township of Lexington. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Building Authority's funds. The Building Authority only has governmental funds. The emphasis of fund financial statements is on major governmental funds with all remaining governmental funds aggregated and reported as nonmajor funds.

The Building Authority reports the General Fund as a major governmental fund. It is the general operating fund of the Building Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Measurement Focus, Basis of Accounting

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental Fund Financial Statements. All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when the related fund liability is incurred.

Assets, Liabilities and Equity

Deposits and Investments - Cash includes cash on hand, demand deposits and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund. All annual appropriations lapse at year end.

The Building Authority follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Building Authority's Treasurer submits to the Board a proposed budget by June 30th of each year.
2. The budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budgeted amounts are as amended.

NOTE 3 - DEPOSITS

Interest rate risk – The Building Authority does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes and the Building Authority's investment policy authorize the Building Authority to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Building Authority is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed or authorized investment vehicles.

Concentrations of credit risk – The Building Authority has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the Building Authority's deposits may not be returned to it. The Building Authority does not have a deposit policy for custodial credit risk. As of June 30, 2008 all of the Building Authority's bank balance was covered by Federal Depository Insurance.

NOTE 4 - NET INVESTMENT IN DIRECT FINANCING LEASES

The lease with the Village of Lexington Building Authority entered into concerning the Lexington Municipal Building qualifies as a direct financing lease. Under a direct financing lease fixed assets are recorded on the books of the lessee and a corresponding long-term liability is reflected in their accounting records.

The lease receivable is reduced annually by lease payments received.

Total minimum lease payments receivable	$ 198,800
Less: unearned finance charges	(51,800)
Net lease receivable	$ 147,000

General obligation bonds in the amount of $ 285,000 with interest at five percent (5%) per annum were issued under the provision of Act No. 31, Public Acts of Michigan, 1948 as amended. Financing of the Building Authority, to include debt retirement and operational expenses will consist of the Village of Lexington contributing eighty percent (80%) and the Township of Lexington twenty percent (20%). Upon the retirement of the construction bonds which financed the facility, or at the time title is transferred to the Village, the Village will convey a tenancy in common to the Township reflecting a twenty percent (20%) interest to the Township.

NOTE 5 - LONG-TERM DEBT

The following is a summary of the 1980 general obligation bond transactions of the Building Authority for the year ended June 30, 2008.

Bonds payable at July 1, 2007	$156,000
Bonds retired	(9,000)
Bonds payable at June 30, 2008	$147,000

The annual requirements to pay principal and interest at five percent (5%) on the obligations outstanding at June 30, 2008 are as follows:

Years	Principal	Interest	Total
2009	$ 9,000	$ 7,350	$ 16,350
2010	10,000	6,900	16,900
2011	10,000	6,400	16,400
2012	11,000	5,900	16,900
2012	11,000	5,350	16,350
2014-2018	66,000	17,650	83,650
2019-2020	30,000	2,250	32,250
	$ 147,000	$ 51,800	$ 198,800

The Building Authority has the option to redeem bonds maturing in the years 2005 to 2020, inclusive, in the manner, at the times and at the prices specified on the face of the bonds.

There are a number of limitations and restrictions contained in the various bond indentures. The Building Authority is in compliance with all significant limitations and restrictions.

NOTE 6 - DEFICIT FUND BALANCE

The Debt Service Fund has a deficit fund balance of $201 at June 30, 2008.

NOTE 7 - RECONCILIATION TO THE STATEMENT OF NET ASSETS

Long-term liabilities applicable to the Building Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term are reported in the statement of net assets. The balance of general obligations bonds payable at June 30, 2008 was $ 147,000.

NOTE 8 - RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Repayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current resources have been used. For the Building Authority as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result as an expenditure in the statement of activities. Repayments of long-term debt for the year totaled $ 9,000.

Village of Lexington Building Authority
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
June 30, 2008

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Budget
Revenues				
Interest earned - investments	$ 450	$ 430	$ 301	$ (129)
Reimbursements	38,636	38,635	29,636	(8,999)
Total revenues	39,086	39,065	29,937	(9,128)
Expenditures				
Operating expenses	38,635	38,635	30,622	(8,013)
Excess (deficiency) of revenues over expenditures	451	430	(685)	(1,115)
Fund balance, July 1, 2007	230,968	230,968	230,968	-
Fund balance, June 30, 2008	$ 231,419	$ 231,398	$ 230,283	$ (1,115)

OTHER SUPPLEMENTAL INFORMATION

Village of Lexington Building Authority
Other Supplemental Information
General Fund
Schedule of Operating Expenses Compared to Budget
June 30, 2008

	Budget	Actual	Over (Under) Budget
Building repairs and maintenance	$ 10,000	$ 2,672	$ (7,328)
Audit and legal expense	2,000	1,900	(100)
Insurance	1,200	884	(316)
Utilities	13,915	13,825	(90)
Miscellaneous	200	130	(70)
Janitorial salary	7,720	7,744	24
Operating and janitorial supplies	1,200	1,219	19
Security system monitoring	600	432	(168)
Clerical expense	1,800	1,816	16
	$ 38,635	$ 30,622	$ (8,013)

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Village of Lexington Building Authority
Lexington, Michigan

We have completed our audit of the Village of Lexington Building Authority for the year ended June 30, 2008. Our audit dated October 2, 2008 contained within was made in accordance with auditing standards generally accepted in the United States of America and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The system of internal control of the Village of Lexington Building Authority is adequate.

The accounting records are adequate.

The physical control over assets is adequate.

The financial records included in the audit are in agreement with accounting records of the Authority. No material or unusual adjustments were required.

All cash in banks at June 30, 2008 is deposited in institutions insured by the federal government.

The following insurance is in force at June 30, 2008:

Type of Coverage	Policy Number		Amount of Coverage	Policy Expiration Date
Property	MML001043322	$	14,551,957	3/26/2009
Liability	MML001043322		5,000,000	3/26/2009

No unsatisfactory conditions came to our attention during the year under audit.

There was no amount due from the Village of Lexington as of June 30, 2008.

There was no amount due from the Township of Lexington as of June 30, 2008.

The Village of Lexington Building Authority is exempt from federal income tax.

We would like to thank your personnel for their assistance during the audit. Should you have any questions regarding the above or if we can be of further assistance to you, please contact our office at your convenience.

Yeo & Yeo, P.C.

Marlette, Michigan
October 2, 2008

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October 2, 2008

Management and the Building Authority Board
Lexington Building Authority

Dear Management

We have completed our audit of the financial statements of Lexington Building Authority as of and for the year ended June 30, 2008 and have issued our report dated October 2, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Communication of Internal Control Matters Identified During the Audit

II Auditors' Communication of Significant Matters with Those Charged with Governance

III Management Comments

We discussed these matters with various personnel in the organization during the audit and with management on September 5, 2008.

These communications are intended solely for the information and use of management, Building Authority Board, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Yeo & Yeo, P.C.

Yeo & Yeo, P.C.

Appendix I
Communication of Internal Control Matters Identified During an Audit

In planning and performing our audit of the financial statements of Lexington Building Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Lexington Building Authority internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Building Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Building Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be a significant deficiencies in internal control:

QuickBooks Accounting Software
We noted that the Building Authority uses QuickBooks for its accounting software. In many cases QuickBooks is the best option for a Building Authority's accounting software and there are very good business reasons to use QuickBooks. It is however important that Management and those charged with governance understand the inherent limitations of the QuickBooks accounting software package. QuickBooks, unlike most other accounting software packages, does not provide for an irreversible closing of fiscal years. Instead, QuickBooks provides an option to password protect the accounting records up through a specific date. We encourage all users of QuickBooks to implement this option and password protect those years which have been audited, after ensuring that QuickBooks records match the audited financial statements. This password protection however does still allow changes to prior periods once the password is entered. The importance of not making changes to password protected periods needs to be instilled in all who know the password. In addition, QuickBooks does not void checks per se. When the void check option is chosen in QuickBooks it is in effect deleting the check as of the date the check was written rather than voiding the check as of the date you choose to void it. This poses problems when the check issue date and the void date are in different fiscal years.

There are broad categories of permissions which should be reviewed and set for each particular user, based on their needs. One of these categories is the ability to change or delete transactions and the ability to change or delete transactions before the closing date. Remember that the Admin user automatically has rights to all broad categories, and therefore may not be the correct user set-up for some users. These categories however are very broad. Anyone given access to input accounts receivable invoices has access to record the receipt of accounts receivable monies and create write-offs of accounts receivables. Therefore QuickBooks cannot be relied upon to enforce segregation of duties.

We recommend that you seriously consider the costs and benefits of QuickBooks software as compared to the Building Authority's needs. We also recommend that this consideration be done on an annual basis as facts and circumstances change throughout the year. The accounting software which is appropriate for a start-up entity may not continue to be appropriate for that same entity as it grows. We are neither recommending for nor against continuing to use QuickBooks as the Building Authority's accounting software, we are simply recommending that the decision made by Management and those charged with governance be a fully informed decision.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

Appendix II
Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards
As stated in our engagement letter dated June 5, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit
We performed the audit as outlined in our discussion with you related to planning matters on September 2, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.

- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.

- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Disagreements with Management
A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants
From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management
From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix III
Management Comments

In planning and performing our audit of the financial statements of Lexington Building Authority as of and for the year ended June 30, 2008, we considered Lexington Building Authority internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Building Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Building Authority's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated October 2, 2008, on the financial statements of Lexington Building Authority. Our comments and recommendations regarding those matters are:

Documentation of Internal Controls
As part of our audit planning procedures, we are required to obtain an understanding of internal control of the Building Authority. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the Building Authority completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.